Wasteful tax cuts would undermine Washington's recovery

WASHINGTON STATE BUDGET & POLICY CENTER

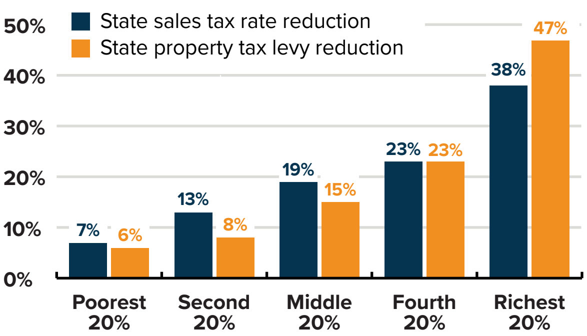
The people of Washington state and their elected leaders have an opportunity to build a better, brighter future in the 2022 state legislative session by making long-term investments in structures, like schools, health care, and infrastructure, that promote dignity and broadly shared economic well-being.

Yet anti-tax organizations and some lawmakers are irresponsibly calling for large tax cuts that would divert funding from communities, exacerbate racial and economic disparities, and needlessly benefit the wealthiest households. **Five reasons to reject calls to permanently reduce funding for communities via wasteful tax cuts include:**

1 Up to half of a broad-based tax cut would be wasted on the wealthy

Reducing sales tax rates, enacting sales tax holidays, or cutting the state property tax would needlessly benefit the wealthiest households while doing little to rebalance the state's notoriously upside-down tax code. Because a sales tax cut would apply to luxury cars, expensive watches and jewelry, and other things purchased primarily by those with very high incomes, nearly 40% of the total value of a state sales tax cut would accrue to the wealthiest households (Figure 1). Broad-based property tax cuts would be even more wasteful, conferring large windfalls to those who own mansions and multi-million dollar investment properties.

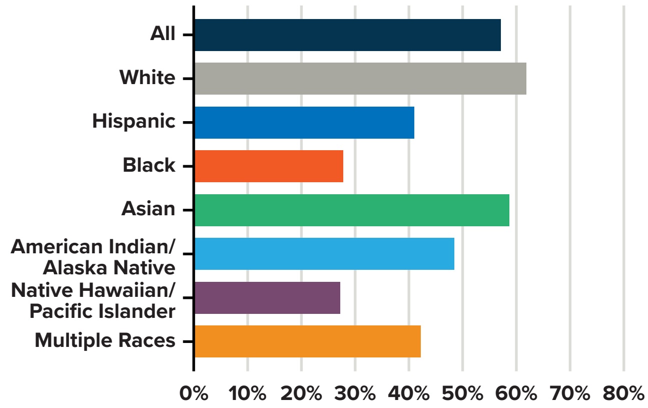
Figure 1:
Sales and property tax cuts unnecessarily benefit the wealthy
Share of total Washington state tax reductions going to each income group in 2018



2 Costly tax cuts would exacerbate racial and economic injustices

By permanently draining resources from their communities, wasteful, open-ended tax cuts would be especially harmful to Black, Indigenous, and People of Color (BIPOC), who have shouldered far too much of the pain wrought by the pandemic and recession. Generations of racist housing, banking, and economic policies mean many BIPOC Washingtonians are far less likely to own their homes than white residents (Figure 2). That means proposals to cut state property taxes, which are constitutionally dedicated to K-12 education, would disproportionately benefit white households, exacerbate entrenched housing and wealth inequities, and drain billions of dollars from communities' public schools.

Figure 2:
A property tax cut would disproportionately benefit white Washingtonians
Homeownership rates among non-elderly households by race and ethnicity in Washington state



3 Wasteful tax cuts would only prolong economic pain and delay recovery

States that have enacted large tax cuts have experienced reductions in K-12 funding, increased tuition for college students, health insurance losses, delays in highway repairs, and other harmful effects.[1] And Kansas,[2] Wisconsin,[3] and other states that cut taxes during and after the Great Recession saw slower, and less equitable recoveries than their regional neighbors. Permanent state sales tax or property tax cuts won't have any meaningful impact on the rising prices of groceries, energy, and other necessities that are causing financial hardship for ordinary Washingtonians. Rather, such tax cuts would only exacerbate the myriad hardships communities across Washington continue to face (Figure 3).

Figure 3:

Community hardships in Washington state that would only be exacerbated by wasteful tax cuts

405,000

adults reported that their households sometimes or often did not have enough to eat.

178,000

renters are not caught up on rent.

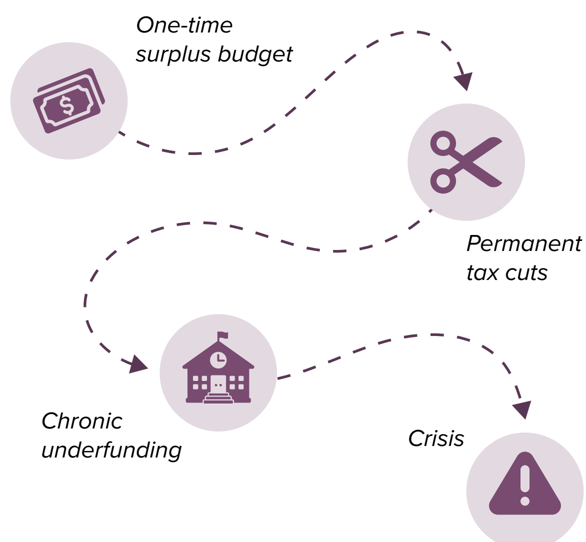
1.2 Million

adults are having trouble covering usual household expenses.

4 History shows wasteful tax cuts will cause generational harm

Just as they are doing now, back in the late 1990s and early 2000s, anti-tax activists wrongly argued that significant, one-time state budget reserves meant state and local property taxes could be permanently cut without doing any long-term damage to schools and other community priorities. Unfortunately, their successful efforts to cut and cap property taxes served only to sap billions of dollars in funding for schools,[4] harming a generation of students and laying the groundwork for the McCleary case. Eventually, the state Supreme Court, under the *McCleary v. Washington* ruling, had to step in and order lawmakers[5] to undertake a painstaking, multi-year process to repair the damage. Lawmakers should learn from history and never repeat this harmful mistake.

Figure 4:



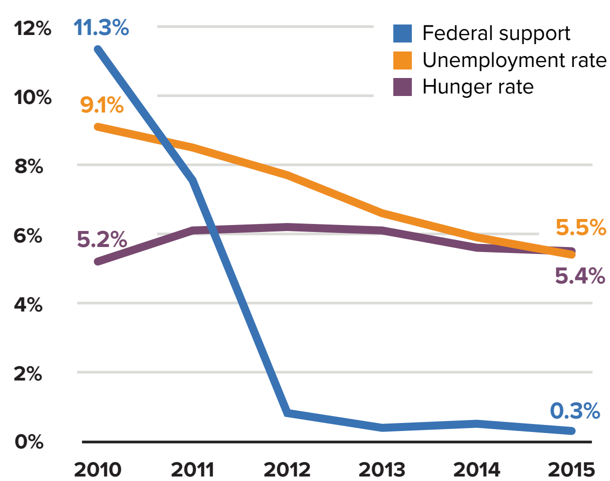
5 Long-term community needs will outlast temporary federal recovery funds

While communities are gradually recovering from the pandemic and recession, temporary federal recovery funds that are preventing thousands of Washingtonians from falling through the cracks will expire at the end of 2024. Experience shows that community needs following recessions long outlast temporary support from the federal government. As Figure 5 shows, the share of Washingtonians without jobs and experiencing hunger in the wake of the previous "Great Recession" remained elevated long after federal support faded away. Lawmakers are on track toward ensuring this recovery is more equitable and robust than the last one as a result of action in the 2021 state legislative session. The equitable new capital gains wealth tax will permanently boost funding for childcare, early learning, and other education investments. But broad-based tax cuts would only prolong the economic pain by permanently siphoning resources away from communities when they are most needed.

Figure 5:

Federal recovery aid following recessions is temporary, but the economic pain lingers

American Recovery and Reinvestment Act (ARRA) funding as a share of state-only general fund expenditures, unemployment rate, and the hunger rate in Washington state by year



There's a better way: equitable new revenue to revitalize and sustain community structures

Rather than enacting wasteful tax cuts, which would permanently drain resources that support the long-term common good, lawmakers should build on the work of the 2021 state legislative session to shore up Washingtonians' shared future by enacting permanent, equitable sources of revenue to replace temporary federal recovery funds. Washington state lawmakers have ample capacity to do so. Because the wealthiest residents get such a special tax deal in Washington, state tax revenues relative to the economy remain near historic lows (Figure 6). New taxes on the wealthy would allow for a host of improvements to all Washingtonians' quality of life through new investments in affordable housing, schools, childcare, services for seniors, and many other unmet community needs.[6] Legislators can also look at building upon the work in the 2021 state legislative session by focusing on supporting the successful and equitable implementation of the Working Families Tax Credit, a targeted and equitable way to help low- and middle-income Washingtonians meet basic needs.

Figure 6:

State tax revenues are not keeping pace with communities' needs

*Washington state tax revenues as a share of the state economy, fiscal years 1995-2027 (projected)**

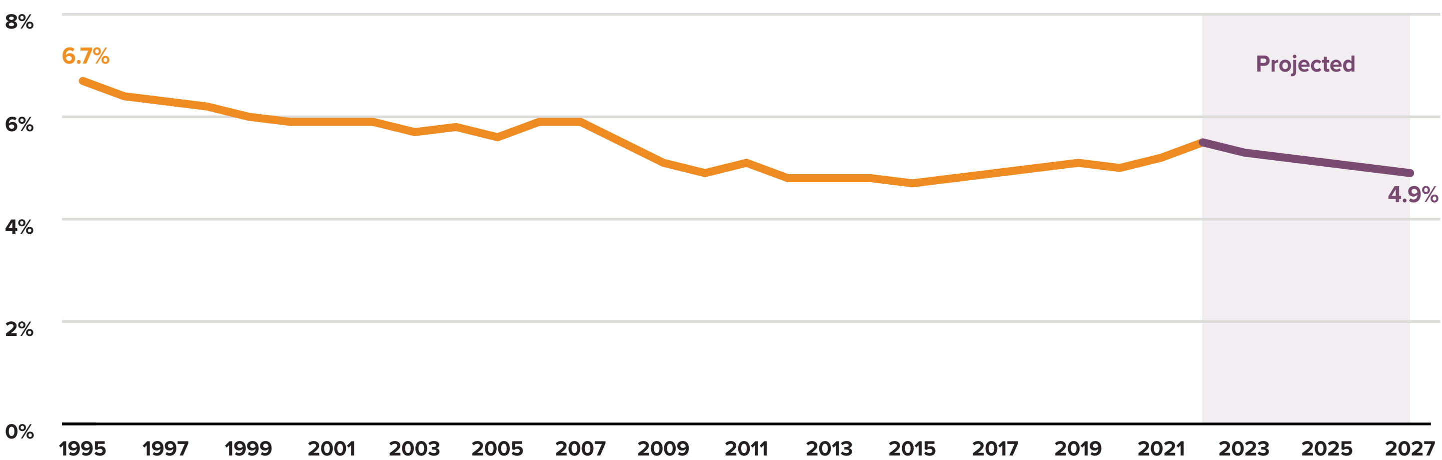


Chart Sources:

Figure 1. Institute on Taxation and Economic Policy

Figure 2. Institute on Taxation and Economic Policy analysis of 2013-2017 ACS 5-year microdata. All groups other than Hispanic include only non-Hispanic households.

Figure 3. Center on Budget and Policy Priorities, https://www.cbpp.org/research/poverty-and-inequality/tracking-the-covid-19-economys-effects-on-food-housing-and.

Figure 5. Budget & Policy Center calculations; data from LEAP, BLS, and USDA

Figure 6. Washington State Budget & Policy Center Calculations; data from the U.S. Bureau of Economic Analysis (BEA) and the Washington State Economic and Revenue Forecast Council (ERFC). *Revenues include total GF-S, ELTA, OPA and WEIA from the February 2022 Economic and Revenue Forecast; State economy as measured by average total WA personal income by fiscal year.

Endnotes:

1. Wesley Tharpe, "Commentary: States Should Reject Baseless Claims for Tax Cuts," Center on Budget and Policy Priorities, Updated January 2022, https://www.cbpp.org/sites/default/files/1-14-22sfp-commentary.pdf.

2. Michael Mazerov, "Kansas Provides Compelling Evidence of Failure of 'Supply-Side' Tax Cuts," Center on Budget and Policy Priorities, January 2018, https://www.cbpp.org/sites/default/files/atoms/files/1-22-18sfp.pdf.

3. David Cooper, "As Wisconsin's and Minnesota's lawmakers took divergent paths, so did their economies," Economic Policy Institute, May 2018, https://files.epi.org/pdf/145177.pdf.

4. Andy Nicholas, "Why it's time to ditch Washington's harmful property tax restriction," Washington State Budget & Policy Center, September 2017, https://budgetandpolicy.org/schmudget/why-its-time-to-ditch-washingtons-harmful-property-tax-restriction/.

5. Kim Justice, Michael Mitchell, Andy Nicholas, and Lori Pfingst, "A Paramount Duty: Funding Education for McCleary and Beyond," February 2013, https://budgetandpolicy.org/wp-content/uploads/2018/11/a-paramount-duty-funding-education-for-mccleary-and-beyond.pdf.

5. Tracy Yeung and Andy Nicholas, "Now is the time to invest in community foundations and the people they serve," Washington State Budget & Policy Center, February 2022, https://budgetandpolicy.org/schmudget/now-is-the-time-to-invest-in-community-foundations-and-the-people-they-serve/.

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